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13 OCT 1978

MEMORANDUM FOR THE RECORD

SUBJECT: Conversation, 12 October 1978

1. I discussed the budget. When I said that we'd only been cut 3% and it didn't hurt particularly, the retort was that wasn't what I had told the President (in the budget process). I emphasized that we weren't hurt with respect to what we had been allowed to ask for but that as long as we found a couple of billion more we'd be all right in the long run.

a. I explained the [] situation. I drew the analogy to the Surface Effect Ship. It was clear to me that something that went three times as fast as anything else was likely to have a military application, but the Navy hadn't been able to sell that to the Congress because they didn't have a specific tactical plan for the Surface Effect Ship already in being. I was persuaded we needed the new technology of the [] but because we hadn't done all of the studies and analyses we'd have a very hard time selling this. I was pleased we had been able to come away with just a small delay. I believe we'd be able by the FY 80 budget to make a reasonable presentation that would be persuasive.

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b. I explained that Congress had tried to put in extra money for []. We had turned that down because it would have automatically given it a higher priority in the FY 80 budget than []. They have given us \$25 million extra to use [] we are going to have to decide how to do that and then go back and get their approval.

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I expressed thanks for the mention that had been made of this topic to Gromyko.

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4. I went through the Panamanian presentation. When I got onto the subject of Panama's opening the distance with us a little and doing more with the Socialist states, the comment was immediately made that they better not forget the treaty process still had another year to go. I said that tied in with my comments on the \$300 million for the hydro-electric plant, though I did point out that this had been promised once before. I think there was a good deal of interest in the Eastern European issue. There was a question as to why the oil exports dropped off so rapidly in 1975. (I made a mistake in not asking Marty to follow up on why the Suez Canal opening had an impact on that. I did explain that traffic through the Panama Canal had dropped from 37 to 32 ships a day.) There was interest in where the Panamanian oil came from. I was able to explain that and general interest that they refined oil for delivery to ships going through the Canal.

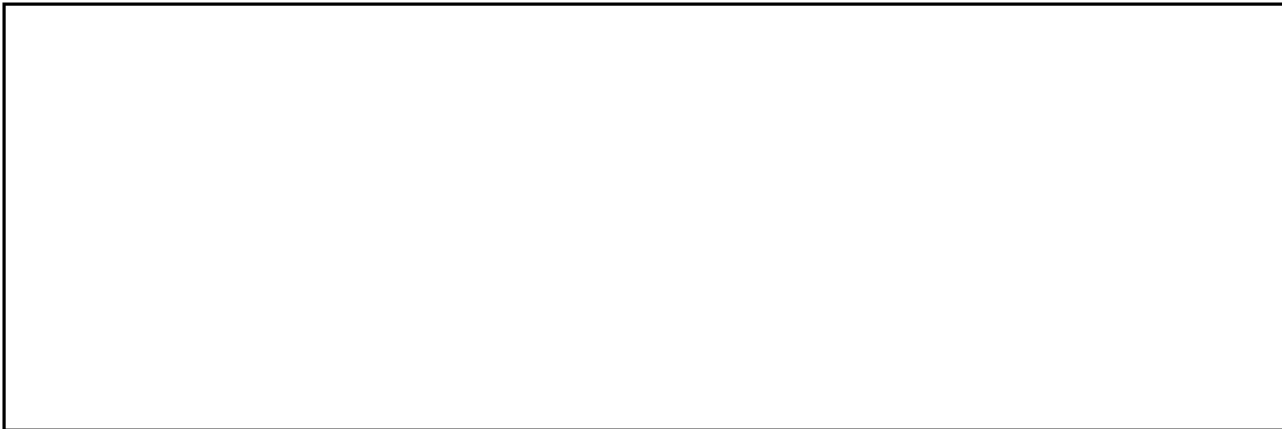
a. I was asked if Cuba had any exports that Panama didn't have. I said I didn't think so. They both had bananas and sugar. I had described the copper prospects and there was clear recognition that that probably meant trouble ahead in marketing.

b. Overall, I think it was a very useful briefing and it fit together well.

5. Soviet defense expenditures. Covered this one very much in accordance with the outline. I had the feeling of keen interest all the way along. There was a discussion of ruble conversion rates. The question was asked what the 17 billion rubles corresponded to in dollars. Brzezinski said 1.1 to a dollar; I said that was the official exchange rate but that we estimated something more like 2.1 to a dollar. (Is that correct?) There was a lot of attention to the second chart. Brzezinski asked whether Brezhnev said one out of three rubles goes to defense in an open or closed forum. I said open, but I'm not sure. I left the classified study behind. Overall, I think the briefing was useful particularly because the remark was made that Gromyko had actually come back to this subject several times. Hence, we may see more of it in the future.

7. I covered the [] one easily.

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9. Overall, a good show. There seemed to be an enthusiastic response.

STANSFIELD TURNER
Director